



W.W. Grainger Inc. (GWW)

Updated February 3rd, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$365	5 Year CAGR Estimate:	4.6%	Market Cap:	\$19 B
Fair Value Price:	\$315	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	02/05/21
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-3.0%	Dividend Payment Date:	03/01/21
Dividend Yield:	1.7%	5 Year Price Target	\$421	Years Of Dividend Growth:	49
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	6.3%

Overview & Current Events

W.W. Grainger is one of the world's largest business-to-business distributors of maintenance, repair, and operations ("MRO") supplies. The company was founded in 1927 and generated sales of nearly \$12 billion in 2020. Grainger trades with a market capitalization of \$19 billion and has increased its dividend for 49 consecutive years, which makes it a member of the Dividend Aristocrats Index. Grainger is headquartered in Lake Forest, IL.

On February 3rd, 2021 W.W. Grainger reported Q4 and full year 2020 results for the period ending December 31st, 2020. For the quarter revenue equaled \$2.941 billion, representing a 3.3% increase compared to Q4 2019. Gains were driven by share gains in the U.S. segment and continued growth in the endless assortment businesses. Adjusted net income equaled \$197 million or \$3.66 per share compared to \$212 million or \$3.88 per share in Q4 2019.

For the year Grainger reported sales of \$11.797 billion, a 2.7% increase compared to 2019. Adjusted net income equaled \$877 million or \$16.18 per share compared to \$17.29 in 2019. Due to the COVID-19 pandemic Grainger is not providing 2021 guidance at this time. In addition, the company said that it will be changing its reportable segments to High-Touch North America and Endless Assortment beginning this year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$9.04	\$9.52	\$11.52	\$12.26	\$11.94	\$11.58	\$11.46	\$16.70	\$17.29	\$16.18	\$18.50	\$23.76
DPS	\$2.52	\$3.06	\$3.59	\$4.17	\$4.59	\$4.83	\$5.06	\$5.36	\$5.68	\$5.94	\$6.12	\$8.20
Shares¹	70.0	69.5	68.8	67.4	62.0	58.8	56.3	55.9	53.7	53.7	53.0	48.0

Grainger has grown its earnings-per-share at a 6.7% average annual compound rate between 2011 and 2020. This result was driven by 4.3% annual revenue growth, an expanding profit margin and a share count that was been reduced by an average of -2.9% per year. Since 2018 growth has been much more difficult as the company came off a significantly lower tax rate for 2018 and dealt with the COVID-19 pandemic in 2020. Still, results have held up reasonably well in lesser times. Grainger's strategic shift of lowering its pricing, thereby creating higher demand and growing its revenues, seems to have worked well.

Over the intermediate term profit growth will not only be driven by rising revenue, but also by a reduction in the company's share count. Moreover, we are encouraged by 2020's showing and believe that the company's recession resilience should enable it to avoid significant damage and continue its dividend growth streak. We are forecasting \$18.50 in earnings-per-share this year, presuming the company and economy bounces back from the pandemic, to go along with a 6% intermediate term growth rate.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.8	21.1	21.5	20.3	19.0	19.1	17.7	17.9	17.0	19.4	19.8	17.0
Avg. Yld.	1.7%	1.5%	1.4%	1.7%	2.0%	2.2%	2.5%	1.8%	1.9%	1.9%	1.7%	1.9%

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Over the past decade shares of Grainger have traded hands with an average P/E ratio of 19 times earnings. We are using 17 times earnings as a fair value baseline, taking into consideration a slightly slower expected growth rate and short-term unknowns related to the pandemic. With shares presently trading near 20 times earnings, this implies the potential for a modest valuation headwind.

Meanwhile, the dividend yield is not especially compelling, but its propensity to grow over time is noteworthy.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	28%	32%	31%	34%	38%	42%	44%	32%	33%	37%	33%	33%

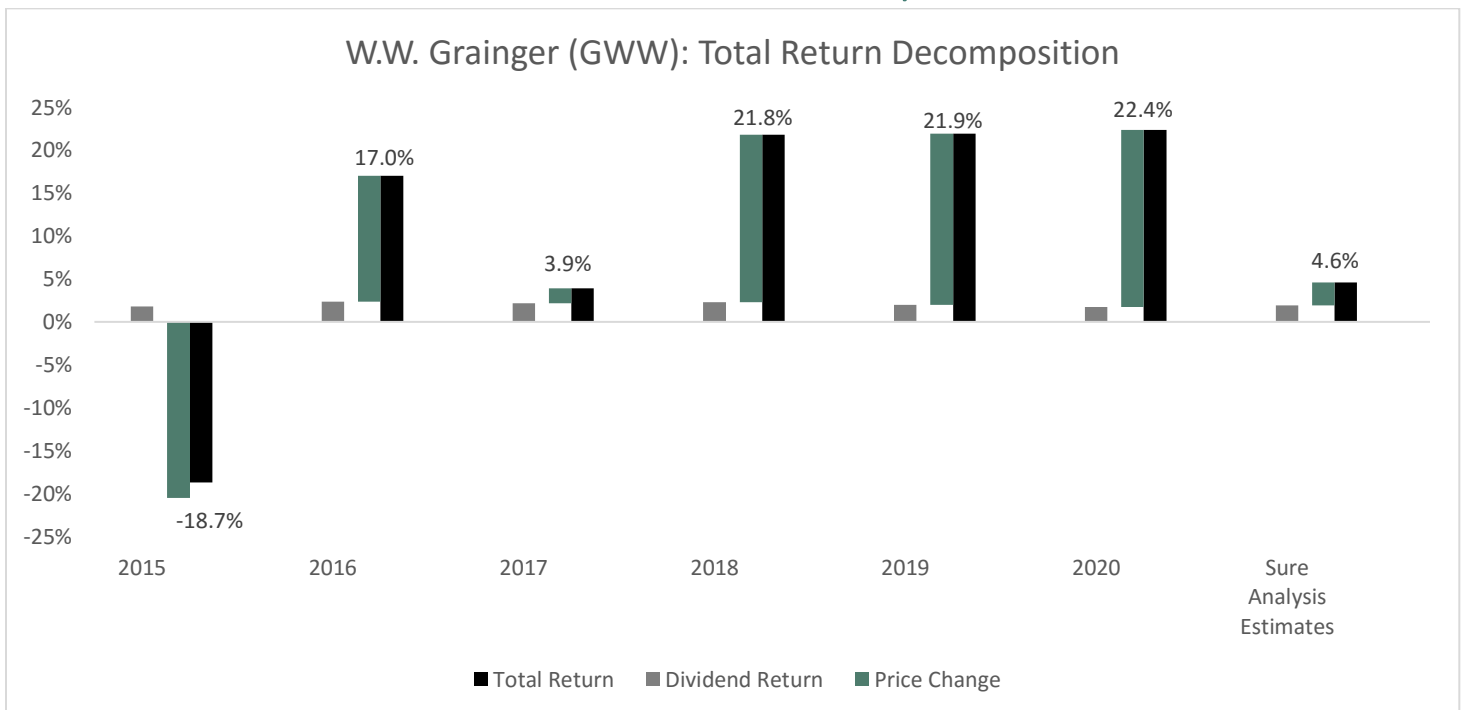
Grainger has an excellent dividend growth track record. Despite increasing its payout every year for nearly half a century, the company's dividend payout ratio has not risen to a high level, as it remained below 50% throughout the last decade. The low dividend payout ratio and a very long dividend growth track record, coupled with a relatively stable recession performance, make us believe that Grainger's dividend is safe.

The services Grainger provides are essential for other businesses. This makes the business relatively immune to recessions and economic downturns. During the last recession Grainger posted earnings-per-share of \$6.09, \$5.25 and \$6.81 during the 2008 through 2010 stretch. In 2020, results proved to be similarly durable.

Final Thoughts & Recommendation

Shares are down -9% since our last report, while earnings are expected to rebound nicely. Grainger is a good example of a company in an unspectacular industry, but that has achieved a strong earnings and dividend growth track record, nevertheless. Total return potential comes in at 4.6% per year, stemming from 6% growth and a 1.7% starting dividend yield, offset by the potential for a moderate valuation headwind. Even though the total return proposition does not appear overly compelling today, the resilience of the company, its low payout ratio and impressive dividend growth streak are notable. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	8,078	8,950	9,438	9,965	9,973	10,137	10,425	11,221	11,486
Gross Profit	3,511	3,916	4,136	4,314	4,231	4,115	4,098	4,348	4,397
Gross Margin	43.5%	43.8%	43.8%	43.3%	42.4%	40.6%	39.3%	38.7%	38.3%
SG&A Expense	2,458	2,785	2,840	2,967	2,931	3,002	3,063	3,190	3,135
D&A Expense	149	159	181	208	228	249	264	257	229
Operating Profit	1,052	1,131	1,297	1,347	1,300	1,113	1,035	1,158	1,262
Operating Margin	13.0%	12.6%	13.7%	13.5%	13.0%	11.0%	9.9%	10.3%	11.0%
Net Profit	658	690	797	802	769	606	586	782	849
Net Margin	8.2%	7.7%	8.4%	8.0%	7.7%	6.0%	5.6%	7.0%	7.4%
Free Cash Flow	549	566	714	572	662	740	820	818	821
Income Taxes	385	419	480	522	466	386	313	258	314

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	4,716	5,015	5,266	5,283	5,858	5,694	5,804	5,873	6,005
Cash & Equivalents	335	452	431	227	290	274	327	538	360
Accounts Receivable	889	940	1,102	1,173	1,210	1,223	1,325	1,385	1,425
Inventories	1,269	1,302	1,306	1,356	1,414	1,406	1,429	1,541	1,655
Goodwill & Int. Ass.	757	786	829	771	1,230	1,113	1,113	884	733
Total Liabilities	1,992	1,897	1,939	1,999	3,505	3,789	3,976	3,780	3,945
Accounts Payable	478	429	511	554	583	650	731	678	719
Long-Term Debt	517	565	543	484	1,989	2,247	2,343	2,220	2,215
Shareholders' Equity	2,629	3,024	3,250	3,210	2,267	1,798	1,690	1,921	1,855
D/E Ratio	0.20	0.19	0.17	0.15	0.88	1.25	1.39	1.16	1.19

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	15.3%	14.2%	15.5%	15.2%	13.8%	10.5%	10.2%	13.4%	14.3%
Return on Equity	27.2%	24.4%	25.4%	24.8%	28.1%	29.8%	33.6%	43.3%	45.0%
ROIC	21.9%	19.9%	21.1%	21.0%	19.0%	14.3%	14.1%	18.4%	19.8%
Shares Out.									
Revenue/Share									
FCF/Share									

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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